

FELLOWSHIP HOUSING CORPORATION

**FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2021 AND 2020**

TOGETHER WITH AUDITOR'S REPORT

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Fellowship Housing Corporation:

Opinion

We have audited the accompanying financial statements of Fellowship Housing Corporation (a nonprofit organization) which comprise the statement of assets, liabilities, and net assets - modified cash basis as of December 31, 2021 and 2020, and the related statements of revenues, expenses and change in net assets and functional expenses - modified cash basis for the years then end, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects the assets, liabilities, and net assets of Fellowship Housing Corporation as of December 31, 2021 and 2020, and its support, revenue and expenses for the years then ended in accordance with the modified cash basis as described in Note 1.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Fellowship Housing Corporation and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Basis of Accounting

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to that matter.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting as described in Note 1; and for determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

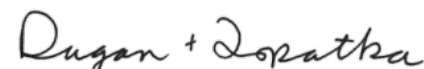
Auditor's Responsibility for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore, is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgement made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risk of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Fellowship Housing Corporation's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgement, there are conditions or events, considered in the aggregate, that raise substantial doubt about Fellowship Housing Corporation's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.



DUGAN & LOPATKA

FELLOWSHIP HOUSING CORPORATION
STATEMENT OF ASSETS, LIABILITIES AND NET ASSETS -
MODIFIED CASH BASIS
DECEMBER 31, 2021 AND 2020

<u>ASSETS</u>	<u>2021</u>	<u>2020</u>
CURRENT ASSETS:		
Cash and cash equivalents	\$ 725,819	\$ 594,290
Investments	385,156	359,067
Gift cards inventory	4,900	5,040
Total current assets	<u>1,115,875</u>	<u>958,397</u>
PROPERTY AND EQUIPMENT:		
Building and building improvements	430,273	430,273
Equipment	26,298	26,298
Software	18,500	18,500
Less - Accumulated depreciation	<u>(269,895)</u>	<u>(249,817)</u>
Net property and equipment	<u>205,176</u>	<u>225,254</u>
Total assets	<u>\$ 1,321,051</u>	<u>\$ 1,183,651</u>
<u>LIABILITIES AND NET ASSETS</u>		
LIABILITIES:		
Pass-through funds	\$ -	\$ 782
Note payable, current maturities	<u>-</u>	<u>42,893</u>
Total current liabilities	-	43,675
LONG-TERM LIABILITIES:		
Note payable, net of current maturities	<u>-</u>	<u>35,160</u>
Total liabilities	<u>-</u>	<u>78,835</u>
NET ASSETS:		
Without donor restrictions	1,269,587	1,082,316
With donor restrictions	<u>51,464</u>	<u>22,500</u>
Total net assets	<u>1,321,051</u>	<u>1,104,816</u>
Total liabilities and net assets	<u>\$ 1,321,051</u>	<u>\$ 1,183,651</u>

The accompanying notes are an integral part of this statement.

FELLOWSHIP HOUSING CORPORATION
STATEMENT OF REVENUE, EXPENSES AND CHANGE IN NET ASSETS - MODIFIED CASH BASIS
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

	2021			2020		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
PUBLIC SUPPORT AND REVENUE:						
Contributions -						
Individuals & Foundations	\$ 628,694	\$ 91,800	\$ 720,494	\$ 848,287	\$ 30,000	\$ 878,287
In-kind	73,505	-	73,505	51,970	-	51,970
Special events, net of direct expenses of \$104,430 and \$112,451 for 2021 and 2020, respectively	184,895	-	184,895	208,230	-	208,230
Government grants	23,491	-	23,491	32,846	-	32,846
Rental income	154,198	-	154,198	120,009	-	120,009
Investment income	26,316	-	26,316	33,760	-	33,760
PPP forgiveness income	78,053	-	78,053	-	-	-
Other income	87,588	-	87,588	-	-	-
Net assets released from restrictions	62,836	(62,836)	-	41,716	(41,716)	-
 Total public support and revenue	 1,319,576	 28,964	 1,348,540	 1,336,818	 (11,716)	 1,325,102
EXPENSES:						
Program Services	827,761	-	827,761	698,641	-	698,641
Management & General	121,998	-	121,998	133,195	-	133,195
Fundraising	182,546	-	182,546	171,195	-	171,195
 Total expenses	 1,132,305	 -	 1,132,305	 1,003,031	 -	 1,003,031
 Change in net assets	 187,271	 28,964	 216,235	 333,787	 (11,716)	 322,071
NET ASSETS, beginning of year	1,082,316	22,500	1,104,816	748,529	34,216	782,745
NET ASSETS, end of year	\$ 1,269,587	\$ 51,464	\$ 1,321,051	\$ 1,082,316	\$ 22,500	\$ 1,104,816

The accompanying notes are an integral part of this statement.

FELLOWSHIP HOUSING CORPORATION
 STATEMENT OF FUNCTIONAL EXPENSES - MODIFIED CASH BASIS
 FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

	2021			2020				
	Program Services	Management and General	Fundraising	Total Expenses	Program Services	Management and General	Fundraising	Total Expenses
Personnel expense	\$ 334,464	\$ 83,955	\$ 135,862	\$ 554,281	\$ 238,226	\$ 83,666	\$ 128,032	\$ 449,924
Apartment rental and maintenance	310,506	-	-	310,506	286,030	-	-	286,030
Client support	2,078	-	-	2,078	162	-	-	162
Benevolence	59,609	-	-	59,609	70,173	-	-	70,173
Building maintenance and utilities	45,243	5	-	45,248	38,901	-	-	38,901
Depreciation	20,077	-	-	20,077	15,536	-	-	15,536
Marketing expense	-	-	36,970	36,970	-	-	35,810	35,810
Office rent	19,556	6,519	-	26,075	18,283	6,094	-	24,377
Office expenses	15,044	5,015	5,947	26,006	17,751	5,917	5,328	28,996
Insurance	12,301	-	-	12,301	11,012	-	-	11,012
Professional fees	-	19,711	-	19,711	-	18,260	-	18,260
Special event expenses	-	-	104,430	104,430	-	-	112,451	112,451
Staff training	1,843	407	876	3,126	1,120	396	840	2,356
Other expenses	7,040	6,386	2,891	16,317	1,447	18,862	1,185	21,494
Total expenses by function	827,761	121,998	286,976	1,236,735	698,641	133,195	283,646	1,115,482
Less expenses included with revenue on the statement of revenue, expenses and change in net assets	-	-	(104,430)	(104,430)	-	-	(112,451)	(112,451)
	<u>\$ 827,761</u>	<u>\$ 121,998</u>	<u>\$ 182,546</u>	<u>\$ 1,132,305</u>	<u>\$ 698,641</u>	<u>\$ 133,195</u>	<u>\$ 171,195</u>	<u>\$ 1,003,031</u>

The accompanying notes are an integral part of this statement.

FELLOWSHIP HOUSING CORPORATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020

(1) NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Fellowship Housing Corporation (FHC) is a nonprofit organization that was founded in 1991 for the purpose of providing safe, affordable housing to single-parent families in need. The FHC program fosters growth and long-term independence by supporting, encouraging, and holding each family accountable in the development of their personal, family, and financial skills. FHC's primary revenue sources are contributions from the public, special events and rent from program participants.

The financial statements were available to be issued on May 18, 2022, with subsequent events being evaluated through this date.

Basis of Accounting -

FHC's accompanying financial statements have been prepared using the modified cash method of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under the modified cash basis of accounting, revenues are recognized when received and expenses are recognized when disbursed. In addition to the reporting of cash receipts and disbursements, property and equipment, inventory, investments, notes payable, in-kind goods and services and unrealized gains have been reflected in the accompanying financial statements.

Basis of Presentation -

Financial statement presentation follows the recommendations of the Accounting Standards Codification (ASC), *Financial Statements for Not-for-Profit Organizations*. Under the ASC, FHC is required to report information regarding two classes of net assets: net assets without donor restrictions and net assets with donor restrictions.

Without donor restrictions - Net assets that are not subject to donor-imposed stipulations and may be expensed for any purpose in performing the primary objectives of FHC. These net assets may be used at the discretion of management and the board of directors.

With donor restrictions - Net assets subject to donor-imposed stipulations. Some donor restrictions are temporary in nature; those restrictions will be met either by actions of FHC and/or the passage of time. Other donor restrictions are perpetual in nature, where the donor has stipulated the funds be maintained in perpetuity.

Cash and Cash Equivalents -

FHC considers all highly liquid instruments with an original maturity of three months or less to be cash equivalents.

Concentrations of Credit Risk -

Financial instruments which potentially subject FHC to concentrations of credit risk consist principally of cash. FHC places its cash and deposits with high credit quality financial institutions; however, deposits may exceed the federally insured limits in various banks from time to time.

(1) NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:
(Continued)

Investments -

Investments are recorded at fair market value. Realized and unrealized gains and losses are reflected in the statement of revenues, expenses, and change in net assets – modified cash basis. Investment securities, in general, are exposed to various risks, such as interest rate, credit and overall market volatility. Due to the level of market risk associated with certain investment securities, it is possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statement of financial position.

Gift Card Inventory -

Inventory includes gift cards held for program use. Donated gift cards are booked at face value when received. Purchased gift cards are recorded as inventory until they are disbursed to program participants and expensed.

Property and Equipment -

Property and equipment in excess of \$1,000 with a useful life of three years or more are recorded at cost if purchased. Donated property and equipment are stated at fair market value at the date of donation. Depreciation is computed using the straight-line method over the estimated useful lives of the respective assets. The useful lives of the assets range from 3 to 31 years. Routine maintenance and repairs are expensed as incurred. Gains and losses on dispositions of equipment are included in the statement of revenues, expenses, and changes in net assets - modified cash basis in the year of disposition. Depreciation expense for the years ended December 31, 2021 and 2020 was \$20,077 and \$15,536, respectively.

Use of Estimates -

The preparation of financial statements in conformity with the modified cash basis of accounting requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting periods. Actual results could differ from those estimates.

Income Taxes -

FHC has been determined by the Internal Revenue Service to be exempt from income tax under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for income tax has been established.

FHC files informational tax returns in the U.S. federal jurisdiction and Illinois. With few exceptions, FHC is no longer subject to U.S. federal, state and local, or non-U.S. income tax examinations by tax authorities for fiscal years before 2018. FHC does not expect a material net change in unrecognized tax benefits in the next twelve months.

(1) NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:
(Continued)

Revenue -

Contributions received are recorded as without donor restrictions or with donor restrictions, depending on the existence and/or nature of any donor restrictions. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of revenue, expenses and changes in net assets – modified cash basis as net assets released from restrictions. Donor-imposed contributions whose restrictions are met in the same reporting period are reported as net assets without donor restrictions.

Functional Allocation of Expenses -

The financial statements report certain categories of expenses that are attributed to a program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include personnel expense, office rent, and staff training, which are allocated on the basis of estimates of time and effort.

(2) INVESTMENTS:

Investments consist of the following on December 31, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Mutual funds	\$ <u>385,156</u>	\$ <u>359,067</u>

Investment income consists of the following for the years ended December 31, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Interest and dividends	\$ 25,293	\$ 11,110
Realized gain on investments	2,385	3,311
Unrealized gain on investments	1,423	21,705
Investment fees	<u>(2,785)</u>	<u>(2,366)</u>
Total	<u>\$ 26,316</u>	<u>\$ 33,760</u>

(3) FAIR VALUE MEASUREMENTS:

The Accounting Standards Codification for Fair Value Measurements establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are described as follows:

(3) FAIR VALUE MEASUREMENTS: (Continued)

Level 1:

Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that FHC has the ability to access.

Level 2:

Inputs to the valuation methodology include:

- quoted prices for similar assets or liabilities in active markets.
- quoted prices for identical or similar assets or liabilities in inactive markets.
- inputs other than quoted prices that are observable for the asset or liability.
- inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

Level 3:

Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodology used for assets measured at fair value.

Mutual Funds - Valued at the daily closing price as reported by the fund. Mutual funds held by FHC are open-ended mutual funds that are registered with the Securities and Exchange Commission. These funds are required to publish their daily net asset value and to transact at that price. The mutual funds held by FHC are deemed to be actively traded.

The preceding method described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although FHC believes its valuation method is appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table sets forth by level, within the fair value hierarchy, FHC's assets at fair value as of December 31, 2021 and 2020:

(3) FAIR VALUE MEASUREMENTS: (Continued)

<u>Description</u>	<u>Assets at Fair Value as of December 31, 2021</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual Funds	\$ 385,156	\$ -	\$ -	\$ 385,156

<u>Description</u>	<u>Assets at Fair Value as of December 31, 2020</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual Funds	\$ 359,067	\$ -	\$ -	\$ 359,067

(4) NOTES PAYABLE:

Notes payable consists of the following as of December 31, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Payroll Protection Program (PPP) loan payable to a bank as part of the Coronavirus Aid, Relief and Economic Security (CARES) Act, interest at 1% with the amount to be repaid in equal installments of principal and interest, beginning at the earlier of the date the SBA remits the loan forgiveness amount or 10 months after the end of the forgivable period, with the final payment due April 2022. As part of the loan agreement, the entire loan or a portion can be forgiven. During the year ended December 31, 2021, FHC received notice that the loan was forgiven in full and the amount was properly recognized as revenue in accordance with ASC 470.	\$ -	\$ 78,053
Less - Current portion	-	42,893
Long-term portion	\$ -	\$ 35,160

(5) NET ASSETS WITH DONOR RESTRICTIONS:

Net assets with donor restrictions on December 31, 2021 and 2020 are as follows:

	<u>2021</u>	<u>2020</u>
McHenry County Expansion	\$ 28,770	\$ -
Legacy Scholarships	22,694	12,500
Town of Elgin	-	10,000
	<u>\$ 51,464</u>	<u>\$ 22,500</u>

(6) COMMITMENTS AND CONTINGENCIES:

FHC is obligated under an operating lease for office space, which expires December 31, 2025. Rent expense is \$26,075 and \$24,377 for the years ended December 31, 2021 and 2020, respectively. Future minimum lease payment are as follows:

2022	\$ 28,655
2023	29,767
2024	30,870
2025	<u>31,975</u>
Total	<u>\$ 121,267</u>

As of December 31, 2021, FHC was leasing 23 apartments with varying terms for program use. The total rental expense was \$246,206 and \$240,910 for the years ended December 31, 2021 and 2020, respectively. The monthly payments total \$27,672 and future minimum lease payments by year as follows:

2022	\$ 257,632
2023	<u>54,001</u>
	<u>\$ 311,633</u>

(7) DONATION OF FACILITIES:

Six program apartment units have been rented to FHC at a significantly reduced rental rate by donors. The difference between the reduced rental charged and the cost of similar FHC rentals is recorded as gift in kind income and expensed as apartment rental program expense. The gift in kind income/expense for the years ended December 31, 2021 and 2020 was \$62,400 and \$45,120, respectively.

(8) LIQUIDITY AND AVAILABILITY:

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year, comprise the following at December 31, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Financial assets -		
Cash and cash equivalents	\$ 725,819	\$ 594,290
Investments	<u>385,156</u>	<u>359,067</u>
Total financial assets	1,110,975	953,357
Donor imposed restrictions	<u>51,464</u>	<u>22,500</u>
Financial assets available to meet cash needs for general expenditures that is without donor or other restrictions limiting their use within one year	<u>\$ 1,059,511</u>	<u>\$ 930,857</u>

(8) LIQUIDITY AND AVAILABILITY: (Continued)

FHC manages its liquidity and reserves following three guiding principles:

- operating within a prudent range of financial soundness and stability.
- maintaining adequate liquid assets to fund near-term operating needs.
- maintaining sufficient reserves to provide reasonable assurance that long-term obligations will be discharged.

(9) RETIREMENT PLAN:

FHC has a SIMPLE IRA plan covering all eligible employees. FHC contributes 2% of an employee's eligible compensation. FHC's contribution for the years ended December 31, 2021 and 2020 was \$10,162 and \$-0-, respectively.